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SUBJECT: ANGOLA FOUNDS ITS OWN DEVELOPMENT BANK

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¶1. (SBU) Summary. In December 2006, the GRA established the Angolan Development Bank (BDA) in order to lend funds from petroleum and diamond revenues to economic sectors neglected by Angola's commercial banks. During 2007, the BDA intends to start lending to agriculture cooperatives and construction projects. Although the BDA is not supposed to compete with the commercial banking sector because it serves different clients, loans to the construction sector may encroach on an area where commercial banks have made substantial loans. End Summary.

The Angolan Development Bank

¶2. In December, the State-Owned Angolan Development Bank (BDA) opened with USD 50 million in capital and the mission of providing credit to agriculture and to small and medium enterprises, economic sectors the commercial banks have not served. The BDA will receive funds from the National Development Fund (FND), established in 2006 as the recipient of 5 percent of tax revenues from oil and 2 percent of its diamond tax revenues. Press reports predict that the BDA will receive USD 150 million per year.

¶3. (SBU) BDA President Paixao Franco Junior speaks with commitment about the BDA's mission to extend the benefits of oil wealth to the bulk of Angola's people in order to make Angola a competitive and prosperous country. The BDA will start with programs focused on agriculture (corn, beans and cotton) and also on construction. The future direction of the bank will depend on the results of its first efforts. Projects involving crops harvested three months after planting, will allow BDA to conduct an early evaluation of the effectiveness of its programs. (Comment: Paixao Franco Junior also headed the BDA's immediate, and smaller, predecessor, the Social Development Fund.)

Brazilian Connection

¶4. (SBU) Experts from Brazil's Banco Nordeste are providing advisers to the BDA as it identifies the cooperatives in its first group of loan recipients. The BDA also hopes existing commercial banks will work with it in rural areas, identifying good risks for loans and providing teller services, said Dr. Junior. (Note: The two commercial banks with the largest network of branches are the Banco de Fomento Angola and the government-owned Banco de Poupanca e Credito. End note.) The BDA will seek technical support with its projects from NGOs and other organizations that can advise co-ops on best practices in planting and raising crops or producing construction materials, he added.

Staffing the Development Bank

¶5. (SBU) Dr. Junior described his staff of 50 as mostly young,

often recent graduates and new to banking. Dr. Junior hopes to limit staff growth to a total of 200 people over the next two years. As it builds its staff, he said, the BDA will stress the quality and training of the staff. Pay is good by Angolan standards ("I would rather pay $900 for two good employees than $1,000 for three indifferent workers," quipped Junior.)

Lending to Agricultural Cooperatives

¶6. (SBU) To guide its lending, BDA has mapped out "production chains" for construction projects and its chosen three crops. These illustrate every phase of production from planting to marketing for agricultural products. The BDA is still in the initial phase of identifying its borrowers. Dr. Junior says that BDA is effectively in the process of conducting an economic survey of the agricultural sector.

Operating Like a Real Bank

¶7. (SBU) BDA will extend loans at below-market rates, but otherwise operate exactly like a commercial bank, insisted Dr. Junior. He said he is aware of the concerns among some observers that the bank will not lend to profitable projects or will be used as a window to funnel credit to political favorties. He affirmed that the BDA will lend only to bankable projects and will expect borrowers to repay their loans. BDA Director Antonio Lima Campos noted that while development banks have a bad reputation, some have been successful, citing Germany's Kreditanstalt fuer Wiederaufbau as an example. (Note: The World Bank's October 2006 country economic memorandum warns against national development banks: "The international evidence suggest that such institutions promote inefficiency and moral hazard and that they are prone to governance problems, including elite capture of subsidized capital and the emergence of non-performing loans." End note.)

Becoming a Self-Sustaining Bank

¶8. (SBU) The BDA will receive funds from the National Development Fund (FDN) for 10 years and must become self-sustaining during that period, said Dr. Junior. The FDN was to convey 5 percent of petroleum tax revenues and 2 percent of diamond tax revenues to the BDA, he explained. By the time FDN funding ends, Junior claimed, the bank will have become self-sustaining through repayments of loans it grants. In the future, Dr. Junior suggested, the BDA may also solicit from both commercial banks and international sources. Besides making its own loans, the BDA will encourage lending to neglected economic sectors by guaranteeing loans made by other banks, he added. The BDA will work closely with commercial banks, not compete with them, he assured Econoff. Although Angola's commercial banks have ample resources, they do not have the confidence to lead, and that is where the BDA has a unique role, he continued.

Management Controls

¶9. (SBU) The BDA, promised Dr. Junior, will closely monitor use of its funds. For example, he said, the bank would not even permit a cooperative to buy a piece of major agricultural equipment on its own. Instead the bank will buy the equipment on behalf of the co-op. (Comment: A knowledgeable Angolan observer noted that this provision still permits collusion among the equipment seller, the coop and bank employees to produce false receipts and defraud the BDA. End comment.)

¶11. (SBU) Comment. The BDA can have a huge effect on lending, especially if it receives infusions of USD 150 million per year and carries out its promise to monitor loan quality. It is too early to know how the BDA will carry out its mandate, and whether it will draw customers away from commercial banks with concessionary interest rates and permissive repayment schedules. End comment.

FERNANDEZ